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Review of the efficiency of the administrative and financial functioning of the United Nations

Report of the Secretary-General on the activities of the Office of Internal Oversight Services

Note by the Secretary-General

1. Pursuant to General Assembly resolution 48/218 B of 29 July 1994, the Secretary-General has the honour to transmit, for the attention of the General Assembly, the attached report, conveyed to him by the Under-Secretary-General for Internal Oversight Services, on the review of the implementation of procurement reform.

2. The Secretary-General takes note of its findings and concurs with its recommendations.

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Annex

Report of the Office of Internal Oversight Services on the review of the implementation of procurement reform

Summary

A. Results in brief

In the early 1990s, the value of procurement by the Organization increased significantly as a result of the growing demand for goods and services in field missions. During the last three years, however, the average value of goods and services procured by the United nations decreased from $500 million annually to approximately $310 million, mostly due to the downsizing of peacekeeping missions.

In 1994, a High-level Group of Experts on Procurement conducted a study of the procurement process and issued a report in December 1994. The status and progress of the implementation of their recommendations was outlined in a report of the Secretary-General of 29 November 1996 (A/C.5/51/9). A second, more recent report of the Secretary-General (A/52/534) was issued on 27 October 1997, after the OIOS review was concluded.

The objective of this review was to verify and evaluate the status and progress of the implementation of recommendations made by the High-level Group of Experts on Procurement. The review showed that the procurement reform process is well under way. The Procurement Division has been reorganized, procurement guidelines are in the process of finalization and delegated procurement thresholds have been adjusted. Management information systems have the capability to produce all necessary management reports, and can be further enhanced once databases are complete. Most notably, the Procurement Division can now rely on staff who are qualified for their assigned tasks. However, additional efforts are needed to further strengthen the overall procurement process. Areas of concern included the training and experience of field mission procurement officers, the procurement manual, procurement planning and the quality of the vendor roster.

B. Recommendations

- Management should consider making use of the procurement and contract administration services offered by the United Nations Office for Project Services for development projects.
- Financial rules should be interpreted so as to permit the initiation of procurement actions pending the allocation of funds and the commitment of funds in cases where a financial commitment is operationally necessary prior to budget approval.
- The procurement of professional services and medicines and medical supplies should no longer be exempted under the Financial rules from the requirement for bidding.
- The draft procurement manual should be reviewed, finalized and issued in a timely manner.

- Training needs should be identified and a formal procurement-specific training programme developed in cooperation with the Office of Human Resources Management.
- Procurement officers should be rotated between Headquarters and field missions to improve the overall qualifications of the procurement staff.
- Procurement authority should be delegated at the start of a field mission and its financial limits should reflect the mission's procurement needs and ability to manage this responsibility.
- Better use should be made of existing management information capabilities.
- Vendor registration procedures should be enhanced to ensure that the vendor roster is reliable.
- The Procurement Division should report on progress made in respect of system contracts.
- Requisitioning departments, in cooperation with the Procurement Division, should develop and submit annual procurement plans.

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I. Introduction

1. In the early 1990s, the value of procurement by the Organization increased significantly as a result of the growing demand for goods and services in field missions. During the last three years, however, the average value of goods and services procured by the United Nations has decreased from $500 million annually to approximately $310 million, mostly due to the downsizing of peacekeeping. Despite the decreased level of activity, procurement remains an area of concern to management and legislative bodies.

2. In 1994, a High-level Group of Experts on Procurement, hereafter referred to as the Group of Experts, conducted a study of the United Nations procurement process and issued a report in December 1994. The status and progress of implementation of their recommendations was described in a report of the Secretary-General dated 29 November 1996 (A/C.5/51/9), hereafter referred to as the 1996 procurement status report. A second status report of the Secretary-General (A/52/534), hereafter referred to as the 1997 procurement status report, was issued on 27 October 1997 after the review by the Office of Internal Oversight Services (OIOS) was concluded. The Advisory Committee on Administrative and Budgetary Questions considered the measures outlined in the 1997 procurement status report and noted in its report to the General Assembly of 5 December 1997 that: "the Committee believes that while considerable progress has been made in the procurement process, implementation of a number of [reform] procedures is still outstanding. It trusts that every effort will be made to adhere to the schedule as indicated in annex II to the report" (A/52/7/Add.3, para. 7).

3. The objective of the OIOS review was to verify and evaluate the status and progress of the implementation of recommendations made by the Group of Experts. The review was conducted between March and September 1997 and included an analysis of relevant documents, statistics and end-of-mission and lessons-learned reports in both the Department of Management and the Department of Peacekeeping Operations. Extensive interviews were also conducted with knowledgeable Department of Management and Department of Peacekeeping Operations officials. Comments received from the Department of Management and the Department of Peacekeeping Operations on 12 January and 2 February 1998, respectively, were taken into account in preparing the present report and are marked in the text in italics. An overview of the status of recommendations is provided in the annex to the report.

II. Organizational structure

4. Previously, the Purchase and Transportation Service at Headquarters was organized in three sections: procurement for field missions; procurement for headquarters and regular offices; and transportation. In January 1996, the Purchase and Transportation Service was reorganized as the Procurement and Transportation Division in response to the recommendation by the Group of Experts that bottlenecks between sections be eliminated. The new organizational structure comprised four sections: two Procurement Sections having a total of eight commodity-specific clusters; a newly created Support Services Section to provide management information and administer the vendor roster; and a Transportation Section. During the OIOS review, the Transportation Section was separated from the Procurement and Transportation Division to report directly to the Office of Central Support Services, and the Procurement and Transportation Division was renamed the Procurement Division. OIOS welcomes this streamlining of reporting lines.

5. The Group of Experts recommended that the Procurement Division have functional responsibility over procurement at the former Department for Development Support and Management Services, whose Contracts and Procurement Office merged with the Procurement Division in February 1998, adding a third Procurement Section in the Division. This overdue consolidation of procurement functions at Headquarters is welcomed by OIOS. For development projects, OIOS recommends that management consider utilizing the procurement and contract administration services offered by the United Nations Office for Project Services, which specializes in the management and procurement support of development projects.

6. *The Procurement Division and the Department of Peacekeeping Operations concurred with the OIOS recommendation, but the Procurement Division pointed out that support costs charged by the Office for Project Services are an important factor to be considered in the decision of whether to utilize its procurement services.* OIOS believes that support costs charged by the Office for Project Services may be less costly than maintaining the corresponding procurement capacities in the Procurement Division.

III. Financial rules and procurement planning

A. Commitment authority

7. The Group of Experts recommended that authority to commit up to 75 per cent of the estimated budget be granted to relevant departments while awaiting budget approval. The recommendation was aimed at providing flexibility to the procurement process, with special consideration given to field operations.

8. OIOS noted in this context that a memorandum of understanding between the Controller and the Under-Secretary-General for Peacekeeping Operations dated 25 January 1995 provides a framework that enables the procurement process to function in exigency situations without prior budgetary approval. In summary, this memorandum of understanding elaborates on financial rule 110.6, which states that the Controller "may approve commitments against current and future financial periods when they are necessary in the interests of the United Nations". The memorandum of understanding states that the authority granted under financial rule 110.6 shall apply if "there is a reasonable expectation of the establishment of a new mission or the extension and/or expansion of the mandate of an ongoing mission". Furthermore, the memorandum of understanding states that "requests for procurement are limited to essential start-up or ongoing requirements, concomitant with the mandate by the Security Council. In cases of new and expanded missions, procurement shall be limited to a maximum of 75 per cent of the provision included therefore in the Secretary-General's budget proposals." Moreover, it specifically lists goods and services which are essential for peacekeeping missions and which are included in the application of financial rule 110.6.

9. In the view of OIOS, for procurement cases that would not warrant the application of financial rule 110.6 and the above-mentioned memorandum of understanding, a less restrictive interpretation of financial rule 110.5 and an adjustment in Integrated Management Information System (IMIS) procedures would add overall flexibility to the procurement process. According to financial rule 110.5, "no contract, agreement or other undertaking exceeding $1,000 shall be entered into until credits have been reserved in the accounts, through the recording of an obligation, to meet expenditures which may accrue in the financial period". As currently interpreted, this provision makes the initiation of the procurement process dependent on the authorization of funds, and IMIS controls prevent the entering of requisitions in such instances. Hence, if financial rule 110.5 is interpreted in a restrictive manner, preliminary procurement actions, such as invitations for bids or requests for proposals cannot be initiated, even though no financial commitment is required during these early stages. Maintaining such strict controls can result in additional costs to the Organization, since precious time is lost awaiting budget approval and insufficient time to secure goods and services is left once the funding has been secured. This can often result in contract awards without the benefit of competition or *ex post facto* submissions to the Committees on Contracts.

10. In the opinion of OIOS, financial rule 110.5 does not prohibit planning or the initial steps of the procurement process, but merely prevents the entering into a financial commitment with vendors. In order to facilitate urgent procurement, the raising of requisitions, the issuance of invitations to bid or requests for proposals and the subsequent technical and financial evaluation of bids and proposals should be permitted pending the approval of funds. IMIS control features should be adjusted to accommodate such actions when requisitions are certified as urgent requirements. In general, OIOS believes that this less restrictive interpretation of financial rule 110.5 would apply to field missions whose mandates can reasonably be expected to be extended.

B. Procurement planning

11. The Group of Experts recommended the development of an annual procurement plan. The Department of Peacekeeping Operations plays the primary role in the procurement process for new and existing field missions. However, the political, military, infrastructural and humanitarian situations may be fluid, especially in the initial stages of a field operation. Continuously changing assumptions, both before and after the formal establishment of a field mission by the Security Council, cause great difficulties in procurement planning and often result in delays in the acquisition process. Also, lead times between the dates of requisition, invitation to bid, deadline for submission of bids, technical evaluation and delivery are often prolonged.

12. Field missions with established administrative and logistics structures are in a better position to plan for the procurement of required goods and services. Nonetheless, in many cases exceptions for urgent procurement may still be required. In view of the fact that the budget period for most peacekeeping missions was extended to 12 months,

OIOS recommends that the Department of Peacekeeping Operations, in cooperation with the Procurement Division, develop annual procurement plans for ongoing field missions. Annual procurement plans should also be submitted by departments and offices at Headquarters where requirements for goods and services are normally predictable. These planning procedures should also be included in the procurement manual.

13. The compilation of lessons-learned reports and end-of-mission reports by the Department of Peacekeeping Operations represents a positive step towards improving overall procurement planning, and the efforts by the Department of Peacekeeping Operations and the Procurement Division to utilize this information in the procurement process are commended.

14. The Group of Experts also recommended that increased numbers of system or blanket purchase contracts be introduced to streamline the overall procurement process. Such contracts allow the Organization to acquire an indefinite quantity of goods or services at prices fixed for a specified time and are an important planning tool. Several such contracts were awarded for commodities required by field missions, and a system contract for rations was in its preparation phase at the time of this review, However, reliable statistics confirming the progress made in this area should be compiled and made available.

C. Exceptions to the requirement for obtaining bids and proposals

15. Financial rule 110.19 (f), which exempts professional services from the requirement for bidding, no longer appears to be justified in view of the competitive market for such services. Therefore, OIOS believes that professional services should, as a rule, be obtained by bidding. Similarly, financial rule 110.19 (g) states that medicines, medical supplies, hospital or surgical supplies or prosthetic appliances may be purchased without the benefit of competition. This exemption from bidding may have been reasonable when the pricing of such goods was subject to government regulation. However, in today's international commodity markets where generic products can be obtained at competitive prices, exemption of these goods is no longer justified and may limit the Organization's ability to obtain the best value. In exceptional cases where bidding would not give satisfactory results, financial rule 110.19 (h) should be applied. Under this rule, contracts may be awarded without bidding when "the Assistant Secretary-General for General Services or such other official authorized under rule 110.16 determines that competitive bidding or calling for proposals will not give satisfactory results. In such cases, appropriate reasons shall be recorded in writing."

16. *The Department of Peacekeeping Operations expressed the view that, in order to accommodate procurement planning needs, procurement reform would have to go beyond the recommendations of both the High-level Group of Experts and OIOS if it was to be responsive to the requirements of peacekeeping operations and other field missions. The Department believed that the Office of the Under-Secretary-General for Peacekeeping Operations should be vested with the financial authority to conduct procurement within the limits of field missions budgets. It further stated that programme managers at Headquarters and in the field should be able to approve contracts for exigency situations; the Department of Peacekeeping Operations should have the authority to designate officials to enter into contracts and financial commitments, including full authority to the Head of Mission during the first six months of a mission; procurement authority should be delegated immediately at the start of a mission in order to permit a rapid local procurement response to meet exigency requirements; and the committees on contracts should be in a position to authorize contracts before (a priori) the start of the actual procurement process in order to meet anticipated needs. It also voiced the opinion that, in order to meet the operational needs of peacekeeping operations, a separate set of procurement regulations and rules should be developed specifically for peacekeeping operations. Moreover, it stated that there was a need for legislation that would authorize it to enter into financial commitments of up to 75 per cent of the anticipated budget.*

17. *The Procurement Division noted that it "can and does solicit proposals prior to funding" with adequate justification and that generally delays in funding and unspecific requirements from requisitioners are the main impediments to timely procurement. It also stated that the above-mentioned memorandum of understanding is a tool for such procurement.*

18. In the view of OIOS, fast track procurement procedures and the granting of financial authority are issues of major importance, especially for peacekeeping missions in the planning stage and in the process of significant expansion. OIOS had recommended in a previous report entitled "In-depth evaluation of the Department of Humanitarian Affairs" (E/AC.51/1997/3), *inter alia*, that special emergency rules and procedures should be developed to meet the requirements of the Department's emergency activities and to address related issues concerning personnel and procurement arrangements. Pending the development

of these special rules and procedures, the implementation of OIOS recommendations regarding the interpretation of financial rule 110.5, the application of financial rule 110.6, the development of annual procurement plans, and increased use of system contracts could shorten lead times and contribute to more effectively meeting the operational needs of requisitioning departments.

IV. Procurement guidelines

19. The Group of Experts recommended in December 1994 that a procurement policy document, a procurement procedural document and a standard operating manual be developed. In March 1995, OIOS also recommended in its final report on the in-depth evaluation of peacekeeping operations: start-up phase (E/AC.51/1995/2 and Corr.1) that the procurement manual be revised and issued by the end of 1995. Progress has been made in developing a new procurement manual, which includes procurement policies and procedures and, to a limited extent, standard operating procedures. As of the date of the present review, however, the procurement manual was still in a draft stage. OIOS notes the statement made in the 1997 procurement status report that the first quarter of 1998 would be the final target date for completion and issuance of the procurement manual. The final version should then be made available in hard copy and on the United Nations Intranet to ensure wide distribution to users.

20. OIOS examined the draft manual and noted that the responsibilities of the Procurement Division are generally well defined and adequate guidance is provided in terms of conducting most procurement transactions. However, in order to serve as a comprehensive guideline for procurement officers and requisitioning departments, OIOS believes that the procurement manual should be further revised to include:

- A mission statement affirming the need for competition, best value and commitment to overall client service;
- A code of conduct and professional and ethical standards for procurement officers. In order to prevent financial conflicts of interest and avoid improper influence, such a code could include employment restrictions prohibiting staff in procurement-related functions from accepting employment with United Nations contractors in positions that would involve having direct contact with the Procurement Division or requisitioning departments. Under the same premise, former employees of United Nations contractors could be proscribed from being employed in procurement-related functions in the Organization for a specified time period. OIOS also agrees with the suggestion of a senior procurement officer to introduce procurement "dos and don'ts" – guidelines with practical examples pertaining to the appearance of impropriety or conflict of interest;
- Procedures to handle complaints, bid protests, etc., and a definition of the role of supplier relations manager, a function which has been established in the Office of the Assistant Secretary-General for Central Support Services;
- Guidelines for the solicitation process, i.e. when to solicit by advertising, when to use the vendor roster and when both methods should be used concurrently;
- A policy statement concerning the use of brokers;
- A policy statement on coordination of procurement matters with other United Nations agencies;
- A definition of immediate operational requirement (also referred to as exigency) and procedures for urgent procurement, especially in connection with the application of financial rule 110.19;
- Standard procurement planning procedures and control measures to ensure adequate lead times between requisition and delivery date;
- Improved evaluation criteria for the new supplier application form;
- Guidance on proposal and bid review, price negotiation and analysis of proposed costs/prices;
- A section on management information statistics, as was included in an earlier draft of the manual;
- A section on delegation of authority to offices away from Headquarters and field missions;
- Samples of standard contracts pre-approved by the Office of Legal Affairs;
- Guidelines on contract monitoring, and the roles and responsibilities of the Procurement Division and users with respect to contract administration;
- A definition of system contracts and guidelines for their use;
- Documentation requirements to ensure an audit trail and transparent decision-making in vendor selection.

21. *The Procurement Division noted that the Common Services Working Group on Procurement was in the process of drafting a mission statement. The Division also stated that the Office of Legal Affairs should be consulted on the*

feasibility of employment restrictions specifically for Procurement Division officers. It further stated that the Task Force on Common Services was preparing a policy on the coordination of procurement matters with other United Nations agencies and pointed out that this policy should be included in the procurement manual. It also noted that more specific guidance from OIOS on the above issues would be helpful. The Department of Peacekeeping Operations advised that it was finalizing extensive comments on the draft manual to be submitted to the Procurement Division. OIOS encourages the Procurement Division to consider the comments of the Department of Peacekeeping Operations for the final version of the procurement manual.

V. Human resources

22. At the time of its study, the Group of Experts concluded that the competence and qualifications of managers and procurement officers were inadequate, owing partly to an overall lack of procurement-specific training. OIOS reviewed the personnel files of 20 Professional staff at Headquarters and determined that more than 90 per cent of them had procurement-related qualifications and/or procurement-related experience. Fifteen per cent of the staff had governmental and 10 per cent military procurement experience. OIOS found that the qualifications and experience of procurement officers handling complex assignments appeared to be adequate. Senior procurement officers at the P-4 and P-5 levels had, on average, 17 years of procurement-related experience. As recommended by the Group of Experts, a Coordinator was appointed as a focal point for information technology. OIOS concluded that the Procurement Division, after a period of high staff turnover, has now developed a nucleus of experienced procurement officers, and that the vast majority of Procurement Division staff are qualified to perform their assigned functions.

23. In contrast to the situation at Headquarters, the review showed that problems still exist in the field. Of 86 procurement officers in the field, OIOS reviewed the backgrounds of 21 Professional staff and 6 Field Service officers. Sixty-two per cent of these staff had combined United Nations and outside procurement experience, whereas 38 per cent had no outside procurement experience. None of the Field Service staff had outside procurement experience or other procurement-related qualifications, and only 10 per cent of the Professional staff had prior procurement experience at Headquarters. It was also noted that the Professional staff at Headquarters do not have the opportunity to share their expertise with field missions. OIOS therefore strongly encourages the Procurement Division to develop a policy whereby the rotation of procurement officers between Headquarters and field missions would become an integral part of their career development.

24. The qualifications and experience of three government secondees were also reviewed. All three had adequate procurement-related qualifications and experience, with an average of 14 years of procurement-related experience. The Procurement Division noted that the use of government secondees would be phased out in 1998.

25. The Group of Experts recommended that training be provided for the IMIS and Reality systems, and staff did receive such training. The Group also recommended the implementation of a procurement training programme and this was confirmed in the 1996 procurement status report. Moreover, the Group recommended that the competence of managers be reviewed, training needs specifically for managers and supervisors be identified and additional general training be made available to them. The review found that staff had attended a number of training courses. In November 1995, Procurement Division staff participated in a four-segment procurement training programme organized by the United Nations Office for Project Services, each ranging from two to four days. In 1996 and 1997, some Division staff participated in two additional courses, and at the time of the review, four new staff members had received on-the-job training in the Procurement Division prior to their assignments to field missions.

26. The efforts undertaken by the Procurement Division in the area of staff training are commended. Nevertheless, OIOS encourages the Division to review further its procurement training needs, in cooperation with the Office of Human Resources Management. This should include structured on-the-job training for junior officers, development of a formal training programme for both Headquarters and field procurement officers, and management training for senior officers. According to the 1997 procurement status report, this process has already been initiated.

27. The Group of Experts recommended that the Procurement Division initiate a record system showing the qualifications and experience of procurement staff, and OIOS would also encourage the Division to develop a staff record, showing for instance training and development needs, for use by senior officers as a management tool.

28. *The Procurement Division and the Department of Peacekeeping Operations concurred with the above observations and recommendations.*

VI. Delegation of authority

29. The Group of Experts initially recommended abolishing local committees on contracts, which review procurement actions at field offices. However, it later agreed with senior management to retain and strengthen the local committees on contracts process. As a result, thresholds for local committees on contracts were increased to a maximum of $200,000 for offices away from Headquarters and field missions. The increased thresholds are welcomed to the extent that they reflect the procurement needs of the offices and missions, consider their ability to administer responsibly the assigned limit and are periodically reviewed and adjusted, if necessary. The 1997 procurement status report indicates this is already taking place, as some smaller missions were assigned a lower procurement threshold.

30. The Group of Experts also recommended that the Headquarters Committee on Contracts conduct pre-award reviews only for system contracts, and that it carry out post-quality reviews for all other procurement actions. OIOS believes that the Procurement Division should carefully consider the additional controls that the Committee on Contracts review process provides before taking a decision to implement this reform. For certain types of goods and services, such as public utilities whose prices are regulated by the host country, however, OIOS concurs that Committee on Contracts review may not be required. *The Department of Peacekeeping Operations agreed with this latter position and noted that a senior procurement officer should be granted authority to approve contract awards in such cases.*

31. Procurement officers at the Procurement Division have been issued detailed letters of delegation, as recommended by the Group of Experts. It was also recommended that samples of delegation letters be provided to offices away from Headquarters, field missions and the international criminal tribunals. The review showed that letters of delegation for field missions were on file in the Department of Peacekeeping Operations, and routine audit visits to peacekeeping missions indicated that this information had been communicated to them. In the view of OIOS, it is crucial for field operations that delegation of authority be granted at the start of the mission.

32. The Group of Experts recommended the introduction of a $5,000 procurement imprest in the field specifically for low value procurement for day-to-day operations. According to the 1996 procurement status report, the suggestion was taken under consideration. The establishment of a procurement impreset could facilitate procurement actions because cash funds would be immediately available for small purchases and would not be subject to the $50 or $100 per purchase limitation imposed on petty cash funds. However, the alternative of making use of already existing cashier's office imprests would avoid control issues and unnecessary risk. Previous audits have shown that both such arrangements have worked satisfactorily in field missions.

33. At Headquarters, the Office of Central Support Services initiated a study to introduce a simplified system for low value procurement (up to $2,500). Currently, control features built into IMIS do not distinguish between low and high value procurement, and any changes in the procedures for low value procurement would also require software changes in IMIS. At the time of this review, no decision had yet been taken on the proposed low value procedures. OIOS welcomes this effort to streamline the procurement process, thereby better managing risk and focusing controls on areas of financial significance. Implementation of such a new procedure is therefore encouraged.

34. *The Procurement Division generally concurred with the above observations and noted that it was working with the pertinent offices to complete the low value procurement study. The Department of Peacekeeping Operations stated that financial limits should be replaced by commodity- and service-oriented procurement delegations of authority.*

VII. Management information systems

35. The Group of Experts recommended that procurement managers identify their management information needs and that a critical review be made of available management information reports. Initial steps in this direction were made, and in April 1996, a new reporting system was implemented making available 30 standard and a variety of customized management reports on the status of requisitions, purchase orders and vendors. However, OIOS believes that an overall strategy is needed for the collection and use of management information as a meaningful procurement tool. There was no consolidated information system. The Support Services Section in the Procurement Division maintained the Reality system, another separate procurement database was kept in one of the commodity Procurement Sections and individual clusters maintained their own databases relevant to their specific commodities. As a result, data was collected inefficiently, and because it was entered into separate databases, it could not be retrieved centrally.

36. The Reality system and IMIS are linked through daily batch processing. While requisitions relating to contracts were entered into IMIS, the contracts themselves were, depending on contract type, entered either into Reality,

IMIS, or a third database. Data entered into Reality system's bid module allows buyers to select vendors, to generate bids and to analyse quotations. It also provides the Support Services Section with a central reporting capability on vendor solicitation and selection. In the opinion of OIOS, use of the bid module should be encouraged for all procurement actions to ensure a comprehensive database.

37. IMIS also contains the United Nations procurement catalogue of frequently requisitioned items. It was noted that the responsibility for the maintenance and ownership of the catalogue had not been assigned to one of the sections in the Procurement Division. Although the Department of Peacekeeping Operations has developed generic specifications for some commodities, the IMIS catalogue did not include many commodities frequently purchased for field missions, such as spare parts, engineering equipment and prefabricated containers. In the view of OIOS, development of a more comprehensive procurement catalogue would help buyers and requisitioners in the procurement process, especially if this information would be available on-line to users in field missions and offices away from Headquarters.

38. OIOS encourages efforts by the Procurement Division and the Department of Peacekeeping Operations to establish a unified format for the provision of procurement data and to target a deadline of March 1998 for a common reporting system, as indicated in the 1997 procurement status report. Existing management reporting systems are capable of capturing most required data, but would be enhanced through the following measures:

- Information on lead times between dates of requisition, distribution of solicitation documents, bid deadline and delivery of goods or services as a procurement planning tool;
- Centralized information about the basis of contract awards, i.e. after bidding, without bidding and reasons for the latter. The information is presently only available at the Committee on Contracts;
- Regular and timely procurement plans provided by user departments to the Procurement Division;
- A central vendor performance database to support procurement officers in the bidding and selection process;
- Reports showing the number of times a vendor was invited to bid, responded to a bid or was awarded a contract to be used for maintaining the supplier roster management;
- A computerized feature in the vendor roster to help assure impartiality in the solicitation process.

39. OIOS is pleased to note the successful development of a procurement website (http://www.un.org/depts/ptd) which provides general information and a listing of recent major contract awards. Companies may download the supplier registration package for subsequent electronic submission.

40. The Group of Experts also recommended that a full inventory of existing assets and their condition be conducted. OIOS is pleased to note that the introduction of the Global Assets Management System, a centralized inventory system encompassing all field missions, is under way in the Department of Peacekeeping Operations. This system should greatly assist in providing for a more effective and efficient procurement planning process.

41. *The Procurement Division concurred with the above observations and pointed out that a central vendor performance database, vendor reports and electronic selection of suppliers were being developed for implementation in 1998.*

VIII. Vendors

42. The Group of Experts recommended that the vendor roster, a database from which companies are selected to participate in the procurement process, be re-established and Member States be approached to encourage qualified national companies to apply for registration. Improvement has already taken place, but the reliability of the roster should be further enhanced. All 4,700 vendors from the old roster were invited for re-registration and 1,250 passed the registration process. The Procurement Division also contacted all Member States and requested that they distribute the registration information to qualified national vendors in order to achieve better geographical distribution, as suggested by the Group of Experts. The Procurement Division was planning to conduct registration briefings for them in the fall of 1997. This effort is commended, especially considering that, at the time of the review, 120 out of 185 Member States were not represented on the roster.

43. As stated in the 1997 procurement status report, a total of 3,000 vendors have been registered. OIOS welcomes the efforts of the Procurement Division to expand the roster, provided that the quality of registered companies is ensured. It was noted that only about one fourth of registered companies were utilized, i.e. had been awarded contracts. The Division has begun producing data showing past trends in vendor utilization which may allow the identification of uninterested vendors, for instance, those registered companies that have not responded to invitations to bid.

44. The 1996 procurement status report stated that "full registration must be completed within 90 days from the date of the award of the contract. If not registered, the supplier is requested to apply and be qualified before being invited to participate in future bids or tenders" (A/C.5/51/9, para. 24). Hence they are excluded from participation in United Nations procurement. During the registration process, a vendor may remain on the provisional roster, which could be considered a log of interested companies, for up to 90 days. Companies submitting documentation as a response to an advertisement may not have been previously included on the roster, but the registration process should then be initiated without delay, and the vendor, if found qualified, should be included on the permanent, not the provisional, roster. At the time of this review, the provisional roster contained 861 companies, of which over 300, or 35 per cent, had been listed for more than 90 days.

45. No controls were in place to prevent vendors on the provisional roster from being invited to bid or awarded contracts. Six vendors on the provisional list were awarded 20 contracts or contract extensions for a total amount of $7 million in 1996. Another 11 vendors received 28 contracts or contract extensions in the amount of $49 million during the same year, even though they were not listed on either the provisional list or on the qualified vendor roster. Therefore, OIOS believes that the Procurement Division should take action to improve the reliability of the vendor roster and, if the 90-day registration limit is an unrealistic time-frame, it should be reconsidered.

46. The review also found that a number of aircraft charter contracts were awarded to contractors on the provisional roster or not on the roster at all. For this type of service, a separate list of technically acceptable contractors produced by the Department of Peacekeeping Operations was used. While OIOS acknowledges the importance of technical pre-qualification, it believes that this vendor list should be incorporated into the master Procurement Division vendor roster.

47. Financial information on vendors should be kept up to date, and technical qualifications should be documented in vendor files. Verification of company information by an outside credit agency should be routinely requested and documented, especially for companies offering complex, high-value or safety-sensitive goods or services. If financial statements are so complex that their analysis requires the assistance of financial experts, it should be sought from the Office of Programme Planning, Budget and Accounts, as necessary.

48. Field mission vendor rosters may contain local vendors that are not well-established, but could still be useful for local procurement, provided that reasonable credit and reference checks are made to ensure that they are reliable.

49. A formal vendor performance evaluation system would provide useful information for re-registration, and should be developed in cooperation with user departments to determine whether a company fulfilled its obligations during a previous contract with the Organization. The 1997 procurement status report noted a December 1998 deadline, and this effort is appreciated although earlier completion is encouraged. At the time of the review, the Support Services Section of the Procurement Division participated in a working group of the Inter-Agency Procurement Services Office to explore the feasibility of implementing a United Nations system-wide vendor roster and performance evaluation system, and the 1997 procurement status report confirmed this ongoing effort.

50. *The Procurement Division generally concurred with the OIOS recommendations. The Division also maintained that incorporating the joint Department of Peacekeeping Operations and Procurement Division aircraft vendor list into the Procurement Division master roster would not be feasible owing to the special nature of aircraft services.* In the view of OIOS, however, while certain technical data contained on the joint aircraft vendor list may not be compatible with the Procurement Division master roster, inclusion of pertinent information on the aircraft vendors would confirm that the appropriate financial and technical checks had been made.

IX. Conclusion and recommendations

51. The review showed that the procurement reform process is well under way. The Procurement Division has been reorganized, procurement guidelines are in the process of finalization and delegated procurement thresholds have been adjusted. Management information systems have the capability to produce all necessary management reports and can be further enhanced once databases are complete. Most notably, the Procurement Division can rely on staff who are qualified to perform their assigned tasks. However, additional efforts are needed to further strengthen the overall procurement process. Areas of concern included the training and experience of procurement officers at field missions, the procurement manual, procurement planning and the quality of the vendor roster.

52. OIOS recommends the following measures:

- Management should consider making use of the procurement and contract administration services offered by the United Nations Office for Project Services for development projects (AM97/71/4/01);
- Financial rule 110.5 should be interpreted so as to permit the initiation of procurement actions pending the allocation of funds, and financial rule 110.6 as well as the memorandum of understanding dated 25 January 1995 between the Controller and the Under-Secretary-General for Peacekeeping Operations should be applied in cases where a financial commitment is operationally necessary prior to budget approval (AM97/71/4/02);
- Financial rules 110.19 (f) and (g) should no longer be used as a basis for granting exceptions to calling for bids and proposals for the procurement of professional services or medicines and medical supplies. Rather, financial rule 110.19 (h) should be used in exceptional cases if bidding would not give satisfactory results (AM97/71/4/03);
- The draft procurement manual should be reviewed, finalized and issued in a timely manner (AM97/71/4/04);
- Training needs should be identified and a formal procurement-specific training programme developed in cooperation with the Office of Human Resources Management (AM97/71/4/05);
- Procurement officers should be rotated between Headquarters and field missions to improve the overall qualifications of the procurement staff (AM97/71/4/06);
- Procurement authority should be delegated at the start of a field mission, and its financial limits should reflect the mission's procurement needs and ability to manage this responsibility (AM97/71/4/07);
- Better use should be made of existing management information capabilities, and databases should be properly maintained (AM97/71/4/08);
- Vendor registration procedures should be enhanced to ensure that the vendor roster is reliable (AM97/71/4/9);
- The Procurement Division should report on progress made in respect of system contracts (AM97/71/4/10);
- Requisitioning departments, in cooperation with the Procurement Division, should develop and submit annual procurement plans for standard procurement (AM97/71/4/11).

53. OIOS continues to pay close attention to procurement matters and will follow up on those issues which have yet to be resolved.

(Signed) Karl Th. **Paschke**
Under-Secretary-General for
Internal Oversight Services

Annex

Summary of implementation of procurement reform recommendations made by the High-level Group of Experts on Procurement

Rec. No.	*Recommendations as noted in the report of the Group of Experts dated December 1994*	*Implementation status as noted in the 1996 procurement status report*[a]	*Progress as described in the 1997 procurement status report*[b]	*Comments by OIOS on the status of implementation*
1	Implement a programme of professional training, starting at the buyer level.	Implemented.	Training has been provided; the Office of Human Resources Management and the Procurement Division were discussing the development of a formal training programme.	Staff attended a number of training courses. A systematic formal training programme and training plan still needed to be formulated.
2	Training should be given at the management and supervisory levels on general management and commercial competencies as well as United Nations-peculiar systems.	Implemented.	Specific training programme for managers is not specifically noted.[b]	Since no training in this respect had yet taken place, it should be developed as part of an overall training programme.
3a	Functional responsibility for all procurement should be given to the Department of Administration and Management.	Under consideration.	Increased cooperation and communication between the Procurement Division and the Department of Peacekeeping Operations.	The procurement function of the former Department for Development Support and Management Services (now the Department of Economic and Social Affairs) was merged with the Procurement Division; other consolidating steps should be carefully examined.
3b	Operational responsibility for procurement to remain with the Department of Peacekeeping Operations.	Not specifically listed in the report.	Increased cooperation and communication between the Procurement Division and the Department of Peacekeeping Operations.	There is increased cooperation between the Department of Peacekeeping Operations and the Procurement Division.
4	All chief procurement officers to have the right of direct access to Officer-in-Charge of the Purchase and Transportation Service on professional matters.	Implemented.	Not specifically noted.	Implemented.
5	All requisitions for Headquarters action should go directly to the Purchase and Transportation Service and not through the Department of Peacekeeping Operations, preferably electronically.	Not advisable.	Not specifically noted.	Requisitions are channelled through the Department of Peacekeeping Operations, which plays an important role in ascertaining actual procurement needs and in verifying requisition information.

Rec. No.	Recommendations as noted in the report of the Group of Experts dated December 1994	Implementation status as noted in the 1996 procurement status report[a]	Progress as described in the 1997 procurement status report[b]	Comments by OIOS on the status of implementation
6	The local committees on contracts should be strengthened.	Implemented.	Thresholds were increased; some smaller missions received lower limits.	Thresholds were increased for all local committees on contracts. A mission's needs and ability to administer responsibly the assigned limits should be considered.
7	Issue personal letters of delegation that clearly spell out what can and cannot be done.	Implemented.	Not specifically noted.	Implemented.
8	Increase delegations to the field missions.	Implemented.	See recommendation No. 6.	See recommendation No. 6.
9	Issue a larger imprest to the sector level in field missions (around $5,000), to use on day-to-day requirements. Guidelines on its use must be issued.	Under consideration.	Not specifically noted. (Note: The Working Group on Procurement also studied low value procurement.)	Some missions have larger imprests, as required. But use of already existing cashier office imprests is also an alternative that would avoid control issues and potential risk.
10	While waiting for budget approval, authority must be given to commit up to 75 per cent of the estimated budget. Priority must be given for mission-critical items.	Implemented.	Not specifically noted.	The memorandum of understanding dated 25 January 1995 between the Under-Secretary-General for Peacekeeping Operations and the Controller applies. It explains in detail the use of financial rule 110.6, which states that in exceptional cases the Controller may approve funds prior to budget approval.
11	The Purchase and Transportation Service should review and implement increased numbers of global systems/blanket contracts.	Implemented.	Progress was made.	Progress was made; however, statistics should be compiled to confirm the use of systems contracts.
12	The vendor roster should be fully purged and Member States should be asked to seek national vendor registration details.	Implemented.	The vendor roster is at approximately 3,000 registrants; efforts are under way to ensure more geographical equity.	Member States were approached to distribute registration materials. Further steps are required to improve the overall quality of the supplier roster.
13	Commercial generic specifications should be compiled and, where not available, United Nations-peculiar specifications should be developed by the Department of Peacekeeping Operations. The field missions must be issued a full list of the specifications.	Implemented.	Not specifically noted. Consultations with the Inter-Agency Procurement Working Group in respect to vehicle specifications.	The IMIS procurement catalogue lacks information on many frequently procured items. Ownership of the catalogue was not assigned to any of the units in the Procurement Division.
14	Issue clear instructions on the use of immediate operational requirement.	Implemented.	List of immediate operational requirement cases with specific examples to be prepared by March 1998.	A definition on the use of immediate operational requirement has not been formalized, but should be included in the procurement manual.

Rec. No.	Recommendations as noted in the report of the Group of Experts dated December 1994	Implementation status as noted in the 1996 procurement status report[a]	Progress as described in the 1997 procurement status report[b]	Comments by OIOS on the status of implementation
15	The Headquarters Committee on Contracts should pre-vet only the systems contracts and carry out a quality review process on decisions already taken.	Not advisable.	Not specifically noted.	Changing the role of the Headquarters Committee on Contracts should be carefully weighed, since its reviews provide an important control function.
16	Public bid openings should be stopped.	Not advisable.	Not specifically noted.	Ceasing public bid openings would affect the transparency of the procurement process.
17	The "bottlenecks" identified at the Head of Field Mission Procurement Section and Head of Processing Section levels in the Purchase and Transportation Service should be eliminated by better definition of responsibilities at a lower level.	Implemented. Reorganization of the Division has addressed the concern.	Division was reorganized to exclude the Transportation Section.	The Division was reorganized into a commodity-specific structure.
18	The Purchase and Transportation Service must initiate a record system to show staff qualifications, expertise and competencies to match staff to posts.	Implemented.	Not specifically noted.	The introduction of such a record system is encouraged as it would provide a useful management tool, e.g. to determine training needs.
19	A procurement plan should be drafted to cover estimated requirements over the next 12 months.	Not feasible.	Increased cooperation and coordination, but annual procurement plans are not noted.	Annual procurement plans should be developed by Headquarters departments and field missions whose logistical and administrative structures are well established; this should be done in cooperation with the Procurement Division. The procurement planning requirement should be detailed in the procurement manual.
20	All reports currently available should be critically reviewed and deleted if not used.	Implemented.	Not specifically noted, but development of a single format for the provision of data for field and Headquarters procurement by March 1998.	Comprehensive reporting capacity is available and should be enhanced to be used effectively as a management tool.
21	Managers should identify their information requirements. – Requisitions value – Amount spent/committed budget – Demand satisfaction rate – Lead times – Equipment performance and trend analysis – Vendor performance etc.	Implemented.	Not specifically noted, but central vendor performance system to be developed by December 1998.	An overall strategy or policy for the use of management reporting systems should be developed. The reliability of the centralized database needs to be enhanced.
22	All staff should receive both IMIS and Reality training.	Implemented.	Not specifically noted.	Implemented.

Rec. No.	Recommendations as noted in the report of the Group of Experts dated December 1994	Implementation status as noted in the 1996 procurement status report[a]	Progress as described in the 1997 procurement status report[b]	Comments by OIOS on the status of implementation
23	Post operation reports must be generated to identify problems, solutions and recommendations for the future.	Implemented.	Regular meetings with the Department of Peacekeeping Operations, which prepares lessons-learned and end-of-mission reports.	Implemented. Lessons-learned reports and end-of-mission reports have been compiled by the Department of Peacekeeping Operations.
24	All requests to vendors should allow 30 days for a response, but 14 days must be the minimum for a fax response.	Not advisable.	Not specifically noted.	Response time should be reasonable.
25	An information technology coordinator should be appointed to survey and record all computer hardware and software in use with a view to making full use of the existing capabilities and expertise.	Implemented.	Not specifically noted.	Implemented.
26	Critically review the competence of managers and move/train, if necessary.	Implemented.	Training and development is being initiated in cooperation with the Office of Human Resources Management.	Senior procurement officers are considered qualified to perform their duties, but their expertise should be complemented with a formal training programme.
27	An independent complaint bureau/ombudsman should be appointed.	Not possible to identify suitable post; budget constraints.	Not specifically noted.	The function has been assumed by the Office of the Assistant Secretary-General for Central Support Services (Office of Conference and Support Services). But the role should be defined and procedures developed.

Recommendations stage 2

Rec. No.	*Recommendations as noted in the report of the Group of Experts dated December 1994*	*Status of implementation as described in the 1996 procurement status report*[a]	*Progress as described in the 1997 procurement status report*[b]	*Comments by OIOS on the status of implementation*
1	A logistics organization should be implemented.	Under consideration.	Not specifically noted.	The introduction of a logistics organization would require careful examination.
2	Perform a full inventory of existing assets to identify what they have, where it is and the condition. Asset redistribution could form the basis of start-up kits.	Implemented.	Not specifically noted.	Implementation of a Global Asset Management System is under way.
3	A procurement policy document should be produced.	Substantially completed.	To be issued in the first quarter of 1998.	Progress has been made in producing a manual, but finalization is still pending. Documents under recommendations 3, 4, and 5 should be integrated into the procurement manual.
4	A procurement procedural document should be produced.	Substantially completed.	To be issued in the first quarter of 1998.	See recommendation No. 3.
5	A standard operating manual should be written.	Substantially completed.	To be issued in the first quarter of 1998.	See recommendation No. 3.
6	A team concept should be fostered.	Implemented.	Not specifically noted.	Fostering a team concept is an area which could be further developed in the Procurement Division.
7	A mission statement should be issued.	Implemented.	Not specifically noted.	A mission statement was available, but should be reviewed and included in the procurement manual.
8	Linear responsibility charts should be generated.	Implemented.	Chart included in report.	Implemented.
9	All major contract activity and awards should be publicized both in hard copy and on electronic media as a contracts bulletin.	Implemented.	Published on the home page and in "Procurement Update".	Published in "Procurement Update" and on the Procurement Division's website (http://www.un.org/depts/ptd).

[a] A/C.5/51/9.

[b] A/52/534. This report relates to procurement reform in general and not directly to the recommendations by the Group of Experts; some of its recommendations are therefore not specifically noted.